Annual Report
2005

IMAFLEX
Committed to Excellence

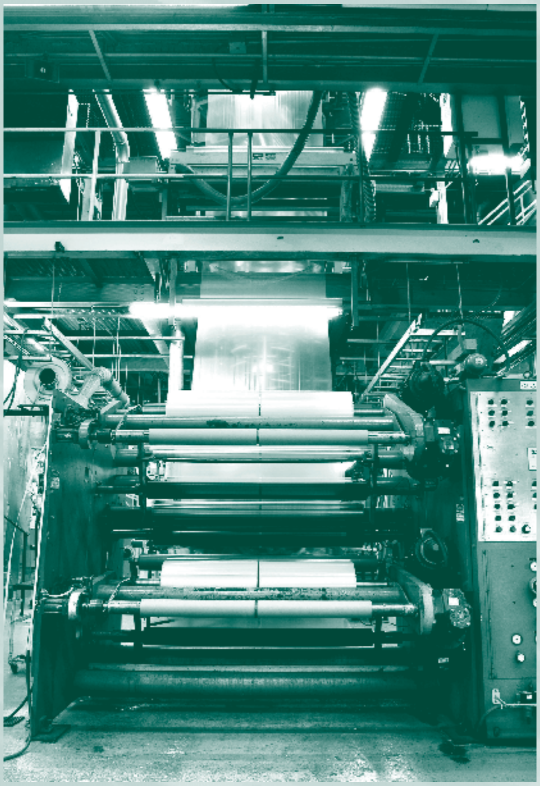
IMAFLEX inc.

CERTIFIED • CERTIFIÉ ISO 9001 2000

Committed to Excellence

CORPORATE PROFILE

Imaflex Inc. (the "Company") and its wholly owned subsidiary Imaflex USA, Inc. ("Imaflex USA") specialize in the manufacture and sale of custom-made polyethylene films suited for various packaging needs of our customers. These packaging films are either used directly by our customers to protect their own products, or by customers who convert our film products into plain or printed bags of all types and/or into printed roll stock, in their own converting operations, to satisfy their own customer needs. Imaflex Inc. employs approximately 70 people in its manufacturing facility, located in Montréal, Québec. Imaflex USA employs approximately 15 people in its manufacturing facility, located in Thomasville, North Carolina. Imaflex recycles 100% of its own waste, the majority in-house, thereby enhancing cost efficiency.



Canslit Inc. ("Canslit"), the wholly owned subsidiary, specializes in the metallization of numerous polymer-based products including polyester, nylon, polypropylene and polyethylene. This is accomplished through the application under vacuum conditions of a fine layer of aluminum vapors to the surface of the polymer-based film. Metallized films are generally used in the packaging of food products. However, these films are also being used in the agricultural, insulation, photography and numerous other industries. Canslit employs approximately 35 people at its manufacturing facility in Victoriaville, Québec.

CERTIFIED • CERTIFIÉE ISO 9001 2000

IMAFLEX

IN ALL SUCCESSFUL BUSINESSES THE KEY TO SUCCESS RELIES ON MANAGEMENT'S ABILITY TO MASTER THREE FUNDAMENTALS:

> CLEAR VISION OF GOALS
> CORRECT TIMING OF ACTIONS
> COMMITMENT TO CUSTOMER

OUR SENIOR MANAGEMENT TEAM KNOWS, UNDERSTANDS AND LIVES BY THESE PILLARS OF BUSINESS FUNDAMENTALS.

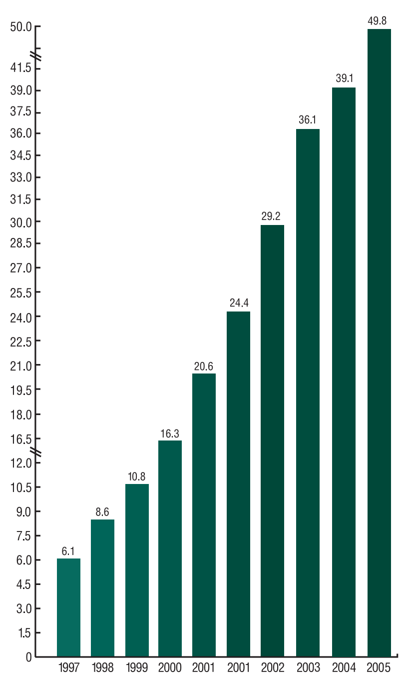
FINANCIAL HIGHLIGHTS

(In dollars except per share data)

	Year ended December 31, 2005	Year ended December 31, 2004	% Change Current year vs. prior year	Year ended December 31, 2003	Year ended December 31, 2002	Eleven month period ended December 31, 2001 (*)
Operating Summary						
Sales	**$49,817,827**	$39,084,230	27.5%	$36,133,109	$29,184,831	$24,366,170
Net Income	**3,793,209**	2,586,568	46.7%	1,478,570	739,785	71,363
Earnings Per Share	**0.110**	0.083	32.5%	0.048	0.024	0.002
EBIT (1)	**5,544,803**	3,871,810	43.2%	2,467,380	1,518,559	837,378
EBITDA (2)	**7,571,931**	5,774,550	31.1%	4,235,456	2,888,028	1,910,482
EBITDA Per Share	**0.220**	0.186	18.3%	0.136	0.093	0.062
Financial Position						
Working Capital	**9,744,879**	3,980,763	144.8%	2,198,793	1,151,989	863,322
Capital Assets	**16,078,546**	10,144,821	58.5%	11,464,751	10,039,595	7,981,279
Total Assets	**36,843,340**	25,131,826	46.6%	20,929,028	17,249,269	15,633,974
Total Long-Term Debt (including Capital Leases)	**9,738,481**	5,535,378	75.9%	7,319,309	6,434,957	5,205,737
Shareholders' Equity	**18,317,395**	9,131,636	100.6%	6,539,068	5,060,498	4,302,713

(1) Earnings before interest and taxes
(2) Earnings before interest, taxes, depreciation and amortization
(*) Change in year-end

SALES
(in millions of dollars)



A Represents year ended January 31.
B Represents eleven month period ended December 31.
C Represents year ended December 31.

REPORT TO OUR SHAREHOLDERS

INTRODUCTION

The Company's results include those of Imaflex Inc. and its wholly owned subsidiaries, Imaflex USA and Canslit.

FINANCIAL RESULTS

The year ended December 31, 2005 was one of continued growth in sales, with a significant increase in net income.

Net income for the year ended December 31, 2005 was $3,793,209, or $0.11 per share, an increase of 46.7% compared with net income of $2,586,568, or $0.083 per share, for the same period in 2004. The overall improvement was driven primarily by a particularly strong first quarter and solid second and third quarters due to sales growth in the Canadian and US markets, by a continuing emphasis on more profitable product segments, and improved manufacturing productivity. Imaflex's extrusion operations generated net income of $2,627,827 for the year ended December 31, 2005 as compared to $2,447,130 for the same period in 2004. Canslit's metallizing operations generated net income of $1,165,382 for the year ended December 31, 2005 as compared to $139,438 for the same period in 2004.

Sales for the year ended December 31, 2005 totaled $49,817,827 compared with $39,084,230 for the same period in 2004, an increase of $10,733,597 or 27.5%. Imaflex's sales increased by $4,517,571 to $36,511,951 as a result of stronger sales volume in the first quarter of 2005 and selling price increases in the fourth quarter necessitated by a higher cost of raw materials. Canslit's sales increased by $6,216,026 to $13,305,876, as a result of progressively stronger quarterly sales volume in the US.

MANAGEMENT OUTLOOK

As had been anticipated by management, the Company reported record sales and profitability for the year ended December 31, 2005, with both Imaflex's extrusion operations and Canslit's metallizing operations contributing to the strong growth in shareholder value. Having explored future growth through suitable acquisitions over past years, it became apparent to management that long-term growth could best be achieved by the Company establishing its own manufacturing facility in the US. Accordingly, the Company established a manufacturing facility in Thomasville, North Carolina and acquired approximately $12,000,000 of production assets, which was paid for by the proceeds of a private placement completed in July 2005 of $6,032,500 and through long-term debt financing. The facility is expected to be fully operational by the end of the second quarter of 2006.

The first quarter of 2006 has been a particularly difficult one for the Company's operations due to significant pricing pressures resulting from reduced demand and excess supply. In 2006, although management will take every action possible, it will be a challenge for Imaflex's Canadian extrusion operations to generate the same level of earnings as in 2005, as a result of the slowdown incurred in the first quarter of 2006 and continued competitive pressures. Canslit's metallizing operations are expected to continue their growth through additional sales volume, which should counter the expected continuing decline in the US dollar, and result in continued profitability. Imaflex's US extrusion operations are expected to incur operating losses in the first half of 2006 as a result of start up costs and the weak market conditions experienced in the first quarter of 2006. Nevertheless management anticipates that, based on an expected improvement in market conditions, Imaflex's US extrusion operations on a full year basis will break even or show marginal profitability.

Given the market conditions expected in the first half of the year, it will be very difficult to repeat the Company's performance of 2005. Nevertheless, management believes that 2006 will still be a reasonably good year although not at the same level as in 2005.

We would like to extend our special thanks to our employees for their dedication to the Company's growth and development, and to our shareholders, customers, and suppliers for their continued confidence and support.

Joseph Abbandonato
President & Chief Executive Officer

QUARTERLY FINANCIAL INFORMATION

	SALES		NET INCOME	
	2005	2004	2005	2004
First Quarter	$ 11,858,294	$ 8,909,028	$ 981,959	$ 408,047
Second Quarter	11,460,412	9,647,398	825,571	588,791
Third Quarter	12,564,914	9,958,509	1,072,458	525,772
Fourth Quarter	13,934,207	10,569,295	913,221	1,063,958
	$ 49,817,827	$ 39,084,230	$ 3,793,209	$ 2,586,568

	EBITDA		EARNINGS PER SHARE	
	2005	2004	2005	2004
First Quarter	$ 1,946,693	$ 1,152,940	$ 0.032	$ 0.013
Second Quarter	1,606,654	1,378,520	0.026	0.019
Third Quarter	1,917,746	1,284,312	0.029	0.017
Fourth Quarter	2,100,838	1,958,778	0.023	0.034
	$ 7,571,931	$ 5,774,550	$ 0.110	$ 0.083

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and accompanying notes.

The Company's results include those of Imaflex Inc. and its wholly owned subsidiaries, Imaflex USA and Canslit.

INCOME STATEMENT

Net income for the year ended December 31, 2005 was $3,793,209, or $0.11 per share, an increase of 46.7% compared with net income of $2,586,568, or $0.083 per share, for the same period in 2004. The overall improvement was driven primarily by a particularly strong first quarter and solid second and third quarters due to sales growth in the Canadian and US markets, by a continuing emphasis on more profitable product segments, and improved manufacturing productivity. Imaflex's extrusion operations generated net income of $2,627,827 for the year ended December 31, 2005 as compared to $2,447,130 for the same period in 2004. Canslit's metallizing operations generated net income of $1,165,382 for the year ended December 31, 2005 as compared to $139,438 for the same period in 2004.

Sales for the year ended December 31, 2005 totaled $49,817,827 compared with $39,084,230 for the same period in 2004, an increase of $10,733,597 or 27.5%. Imaflex's sales increased by $4,517,571 to $36,511,951 as a result of stronger sales volume in the first quarter of 2005 and selling price increases in the fourth quarter necessitated by a higher cost of raw materials. Canslit's sales increased by $6,216,026 to $13,305,876, as a result of progressively stronger quarterly sales volume in the US.

Gross profit for the year ended December 31, 2005 amounted to $10,721,349 or 21.5% of sales, compared with $8,568,199 or 21.9% of sales for same period in 2004. The increase in gross profit was due to higher sales volume. The decrease in gross profit percentage was due to competitive pressures and to the impact of rising raw material costs in the fourth quarter of 2005. The Company increased selling prices to counter raw material cost increases. This did not result in a commensurate increase in the contribution on this sales volume, which further decreased gross profit percentage.

Selling and administrative expenses increased for the year ended December 31, 2005 by $501,170 over the same period in 2004, as a result of the Company's expanded sales efforts in the US market, including Imaflex's US and Canslit operations, which resulted in increased US sales. Selling and administrative expenses represent 6.5% of sales in fiscal 2005, as compared to 6.9% of sales in fiscal 2004.

Amortization of capital assets increased for the year ended December 31, 2005 by $124,388 over the same period in 2004, from the acquisition of additional manufacturing equipment at Canslit and Imaflex's Canadian facility, which became operational in the second quarter of 2005

Interest expense decreased for the year ended December 31, 2005 by $139,766 from the same period in 2004. Though higher levels of long-term debt necessitated by the acquisition of additional manufacturing equipment at Imaflex, Imaflex USA, and Canslit resulted in increased interest expense, this was offset by savings on long-term debt issued prior to 2004, with higher rates but declining balances and incidental interest revenues on short term securities, as a result of funds generated in July 2005 through the underwritten private placement with Acumen Capital Finance Partners Limited ("Acumen"). Furthermore, in the fourth quarter of 2005, the Company received an interest refund adjustment from a long-term debt holder of $165,248.

The foreign exchange translation of Imaflex USA resulted in a gain of $75,965 for the year ended December 31, 2005. The translation gain is related to the period end US / Canadian exchange rate differential between September 1, 2005 (Imaflex USA's commencement of operations) and December 31, 2005. Based on the period end rates the US dollar has weakened 2.0%.

The effective tax rate for the year ended December 31, 2005 increased to 28.7% from 26.2% for the same period in 2004. The income tax provision reflects the taxes on the income generated by the Company's Canadian operations. There was an unfavourable future income tax adjustment of $198,000, as a result of increased Quebec tax rates in the fourth quarter of 2005.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BALANCE SHEET

December 31, 2005 versus December 31, 2004

Total assets increased by $11,711,514 to $36,843,340 as at December 31, 2005 compared with $25,131,826 at December 31, 2004.

Current assets increased by $4,537,300 to $19,292,742 as at December 31, 2005 compared with $14,755,442 at December 31, 2004, as a result of the following:

- Increase in cash as a result of net income earned in 2005 and funds received pursuant to the private placement with Acumen; and
- Increase in accounts receivable as a result of the increase in sales. Days sales outstanding were 80 days during the current year as compared to 77 days in the prior year, reflecting the difficult economic climate for credit in North America.

Deposits for capital assets increased by $1,240,489 to $1,472,052 as at December 31, 2005 compared with $231,563 at December 31, 2004, due to additional manufacturing equipment for Imaflex USA expected to be operational in the second quarter of 2006.

Capital assets increased by $5,933,725 to $16,078,546 as at December 31, 2005 compared with $10,144,821 at December 31, 2004, primarily from the acquisition of manufacturing equipment at Imaflex and Canslit, which became operational in the second quarter of 2005 and manufacturing equipment received at Imaflex USA in the fourth quarter of 2005.

Total liabilities increased by $2,525,755 to $18,525,945 as at December 31, 2005 compared to $16,000,190 at December 31, 2004.

Current liabilities decreased by $1,226,816 to $9,547,863 as at December 31, 2005 compared with $10,774,679 at December 31, 2004, as a result of the following:

- Decrease in bank indebtedness as a result of net income earned in 2005 and funds received pursuant to the private placement with Acumen; partially offset by
- Increase in the current portion of long-term debt, as a result of increased financing for the expansion of the Company's manufacturing capacity in 2005.

Long-term debt increased by $4,203,103 to $9,738,481 as at December 31, 2005 compared to $5,535,378 at December 31, 2004, as a result of the financing for the expansion of the Company's manufacturing capacity in 2005.

Shareholders' equity increased by $9,185,759 to $18,317,395 as at December 31, 2005 compared with $9,131,636 at December 31, 2004 as a result of the following:

- Increase in share capital pursuant to the private placement with Acumen;
- Increase in contributed surplus as a result of compensation options issued to Acumen; and
- Net income generated in 2005, less dividends paid in the second quarter of 2005.

CASH FLOWS

Cash Flows from operating activities

During the year ended December 31, 2005, the Company generated $5,994,998 in cash flow from operating activities before changes in non-cash working capital items, an increase of $1,439,453, or 31.6%, over the same period in 2004. This increase was related to increased amortization and net income as described earlier in this report. The decrease in non-cash operating working capital of $2,447,208 was primarily attributable to a significant increase in accounts receivable, due to higher sales in 2005. The reduction in non-cash operating working capital of $3,856,065 in 2004 was primarily attributable to a notable increase in accounts receivable, due to higher sales in 2004, a significant increase in inventory levels, necessitated by an expected increase in resin costs, partially offset by an increase in accounts payable.

Cash Flows from financing activities

During the year ended December 31, 2005, the Company generated net cash inflows of $7,749,617 compared to net cash outflows of $106,393 for the same period in 2004. The increased cash flow from operating activities was used to reduce bank indebtedness by $1,671,538, make scheduled long-term debt repayments of $2,442,705, and pay dividends of $312,500, which was more than offset by the issuance of long-term debt of $6,674,275 for the current year's capital asset requirements and the issuance of shares for $5,502,085. In 2004, the significant decrease in non-cash working capital resulted in increased bank indebtedness of $1,671,538, while the Company made scheduled long-term debt repayments of $1,783,931.

Cash Flows from investing activities

During the year ended December 31, 2005, the Company required a net cash outflow of $9,161,522 compared to $755,536 for the same period in 2004. The considerable amount in 2005 was required to purchase manufacturing equipment for Canslit, receive additional manufacturing equipment for Imaflex's extrusion operations in Canada and its US facility in Thomasville, North Carolina. In 2004, Imaflex added auxiliary equipment to its manufacturing operations.

FACTORS AFFECTING THE BUSINESS

The Company is involved in a competitive industry and marketplace in which there are a number of participants. To accommodate the recent growth and effectively manage future growth, the Company continues to improve its operational, financial and management information systems, and procedures and controls. The Company's success is largely the result of the continued contributions of its employees and the Company's ability to attract and retain qualified management, sales and operational personnel.

The 30 billion dollar market the Company competes in has historically shown resiliency and growth even at the worst economic times. The Company's customers operate predominantly in the food packaging markets. This fact, coupled with the expanding product lines and reliance on newer and faster equipment should help it weather the potential volatility caused by uncertainty in the North American economic climate.

Factors which can impact the Company include and are not limited to: competitive conditions in the businesses in which the Company participates; general economic conditions and normal business uncertainty; product mix; fluctuations in foreign currency exchange rates; the availability and costs of raw material costs; changes in the Company's relationship with its suppliers; and interest rate fluctuations and other changes in borrowing costs.

SAFE HARBOR STATEMENT

Certain statements and information included in this annual report constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied in such forward-looking statements. Additional discussions of factors could cause actual results to differ materially from management's projections, estimates and expectations. The Company undertakes no duty to update its forward-looking statements, including its earnings outlook.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and all other information in the annual report are the responsibility of the Company's management and have been approved by its Board of Directors.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include amounts that are based on best estimates and judgments. Financial information provided elsewhere in the annual report is consistent with that shown in the consolidated financial statements.

Management maintains accounting and internal control systems that are designed to provide reasonable assurance that accounting records are reliable and assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements included in the present annual report, principally through its Audit Committee. The Audit Committee reviews the Company's annual consolidated financial statements and formulates the appropriate recommendations to the Board of Directors. The auditors appointed by the shareholders have full access to the Audit Committee, with and without management being present.

These consolidated financial statements have been examined by the auditors appointed by the shareholders, KPMG - LLP, Chartered Accountants and their report is presented hereafter.

Roberto Longo, CA

Joseph Abbandonato
President and Chief Executive Officer

Roberto Longo, CA
Corporate Controller

Montréal, Canada
February 21, 2006

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Imaflex Inc. as at December 31, 2005 and 2004 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada
February 21, 2006

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash	**$ 2,103,088**	$ –
Accounts receivable (note 2)	**10,886,317**	8,250,522
Inventories (note 3)	**6,221,720**	6,484,000
Prepaid expenses	**81,617**	20,920
	19,292,742	14,755,442
Deposits for capital assets	**1,472,052**	231,563
Capital assets (note 4)	**16,078,546**	10,144,821
	$ 36,843,340	$ 25,131,826
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 5)	**$ –**	$ 1,671,538
Accounts payable and accrued liabilities	**6,396,021**	6,349,284
Income taxes payable	**731,561**	747,818
Current portion of long-term debt (note 6)	**2,420,281**	2,006,039
	9,547,863	10,774,679
Long-term debt (note 6)	**7,318,200**	3,529,339
Future income taxes (note 7)	**1,659,882**	1,696,172
Shareholders' equity:		
Share capital (note 8)	**7,366,665**	1,946,615
Contributed surplus (note 8)	**285,000**	–
Retained earnings	**10,665,730**	7,185,021
	18,317,395	9,131,636
Commitments (note 10)		
Contingency (note 11)		
	$ 36,843,340	$ 25,131,826

See accompanying notes to consolidated financial statements.

On behalf of the Board,

Director

Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended December 31, 2005 and 2004

	2005	2004
Sales	**$ 49,817,827**	$ 39,084,230
Cost of sales	**39,096,478**	30,516,031
Gross profit	**10,721,349**	8,568,199
Expenses:		
Selling and administrative	**3,216,662**	2,715,492
Amortization of capital assets	**2,027,128**	1,902,740
Interest	**224,866**	364,632
Foreign exchange gain on translation of integrated subsidiary	**(75,965)**	–
Other	**8,721**	78,157
	5,401,412	5,061,021
Income before income taxes	**5,319,937**	3,507,178
Provision for income taxes (note 7)	**1,526,728**	920,610
Net income	**3,793,209**	2,586,568
Retained earnings, beginning of year	**7,185,021**	4,598,453
Dividends	**(312,500)**	–
Retained earnings, end of year	**$ 10,665,730**	$ 7,185,021
Basic and diluted earnings per share	**$ 0.110**	$ 0.083

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Net income	**$ 3,793,209**	$ 2,586,568
Adjustments for:		
Amortization of capital assets	**2,027,128**	1,902,740
Future income taxes	**166,675**	66,237
Other	**7,986**	–
Net change in non-cash operating working capital (note 12)	**(2,447,208)**	(3,856,065)
	3,547,790	699,480
Cash flows from financing activities:		
(Decrease) increase in bank indebtedness	**(1,671,538)**	1,671,538
Issuance of long-term debt	**6,674,275**	–
Repayment of long-term debt	**(2,442,705)**	(1,783,931)
Issuance of share capital	**5,502,085**	6,000
Dividends	**(312,500)**	–
	7,749,617	(106,393)
Cash flows from investing activities:		
Purchase of capital assets	**(7,689,470)**	(564,810)
Increase in deposits for capital assets	**(1,472,052)**	(190,726)
	(9,161,522)	(755,536)
Effect of exchange rate differences on cash	**(32,797)**	–
Net increase (decrease) in cash	**2,103,088**	(162,449)
Cash, beginning of year	**–**	162,449
Cash, end of year	**$ 2,103,088**	$ –
Supplemental cash flow information:		
Interest paid	**$ 259,856**	$ 363,489
Income taxes paid	**1,390,000**	467,802
Additions to capital assets included in accounts payable	**145,320**	105,500
Issuance of compensation options	**285,000**	–
Conversion of deposits for capital assets to capital asset additions	**231,563**	–

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2005 and 2004

Imaflex Inc. (the “Company”) is incorporated under the Canada Business Corporations Act. The Company's principal business activity is the design, manufacture and sale of packaging materials.

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Canslit Inc. (“Canslit”) and Imaflex USA, Inc. (“Imaflex USA”). All significant intercompany balances and transactions have been eliminated.

(c) Revenue recognition:

Sales are recognized at the time of shipment of the products and collection is reasonably assured.

(d) Inventories:

Raw materials and supplies are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out method.

(e) Capital assets:

Capital assets are recorded at cost. Amortization is provided using the following methods, rates and/or periods and net of an estimated salvage value on certain assets:

Asset	Basis	Period
Production equipment	Straight-line	2 to 10 years
Office equipment	Straight-line	5 years
Computer equipment	Straight-line	3 years

Leasehold improvements are amortized on a straight-line basis over the terms of the leases, to a maximum of 5 years.

(f) Foreign exchange:

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Other balance sheet items denominated in foreign currencies are translated at the rates prevailing at the respective transaction dates. Income and expenses denominated in foreign currencies are translated at average rates prevailing during the year. Gains or losses on foreign exchange are recorded in the statement of income.

The foreign subsidiary is considered to be an integrated foreign operation and its accounts have been translated using the temporal method with translation gains and losses included in the statement of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 2)

Years ended December 31, 2005 and 2004

1. Significant accounting policies (continued):

(g) Income taxes:

The asset and liability method is used for determining income taxes. Under this method, future income taxes are recognized for temporary differences between the financial statement carrying amounts and their respective income tax bases. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

(h) Cash and cash equivalents:

Cash and cash equivalents consist of short-term, highly liquid investments with a maturity of ninety days or less.

(i) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(j) Stock-based compensation plans:

The Company follows the fair value based approach for stock option awards and prospectively applied this method of accounting to all awards of employee stock options granted, modified or settled on or after January 1, 2004. Under the fair value based method, the compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. For awards granted before January 1, 2004, the Company did not record compensation cost, and any consideration paid by employees on exercise of stock options was recorded as share capital.

(k) Guarantees:

The Company recognizes a liability for the fair value of the obligation undertaken in issuing certain guarantees on the date the guarantee is issued or modified. Where the Company expects to make a payment in respect of a guarantee, a liability is recognized to the extent that it has not yet been recognized.

In the normal course of business, the Company enters into various agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to a third party based on (i) changes in an underlying that is related to an asset, a liability or an equity of the guaranteed party or (ii) failure of another party to perform under an obligating agreement.

2. Accounts receivable:

Accounts receivable consist of:

	2005	2004
Trade receivables, net of allowance for doubtful accounts	**$ 9,882,409**	$ 8,245,592
Other	**1,003,908**	4,930
	$ 10,886,317	$ 8,250,522

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 3)

Years ended December 31, 2005 and 2004

3. Inventories:

Inventories consist of:

	2005	2004
Raw materials and supplies	**$ 4,883,742**	$ 5,441,000
Reprocessed raw materials	**61,000**	131,000
Work in process	**80,000**	70,000
Finished goods	**1,196,978**	842,000
	$ 6,221,720	$ 6,484,000

4. Capital assets:

Capital assets consist of:

			2005	2004
	Cost	Accumulated amortization	**Net book value**	Net book value
Production equipment	$ 25,606,964	$ 9,755,957	**$ 15,851,007**	$ 10,042,400
Office equipment	16,578	833	**15,745**	–
Leasehold improvements	505,144	293,350	**211,794**	102,421
	$ 26,128,686	$ 10,050,140	**$ 16,078,546**	$ 10,144,821

5. Bank indebtedness:

The Company has operating lines of credit with its bankers to a maximum of $7,500,000, bearing interest at rates ranging between prime plus 0.25% to prime plus 0.50%. The lines of credit are secured by accounts receivable, inventories and capital assets. At December 31, 2005, the Company had drawn $3,354,000 (2004 - $1,649,000) on its lines of credit.

The Company has a demand loan with its bankers to a maximum of $2,300,000, bearing interest at prime. The demand loan was repaid on February 15, 2006, and was secured by a term deposit expiring on the same date.

The Company has met all applicable covenants as at December 31, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 4)

Years ended December 31, 2005 and 2004

6. Long-term debt:

Long-term debt consists of:

	2005	2004
Loan, bearing interest at prime plus 0.75%, repayable in monthly principal installments of $31,000 to June 2010, secured by production equipment	**$ 1,674,000**	$ 2,046,000
Quebec Government Immigrant Investor loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of $20,833 up to October 2003 and $36,458 up to October 2007 (a)	**802,083**	1,239,583
Loan bearing interest at prime plus 1.25%, repayable in monthly principal installments of $22,500 up to November 2008. The loan is secured by a hypothec on all present and future property of the subsidiary, movables and immovables, corporeal and incorporeal, including machinery, equipment, inventory and receivables, ranking second to the bank indebtedness and a corporate guarantee from the Company equal to 50% of the outstanding balance	**787,500**	1,057,500
Loan, bearing interest at prime plus 1%, repayable in monthly principal installments of $16,667 up to March 2007 and a final principal installment of $15,756 in April 2007, secured by production equipment	**265,756**	465,756
Loan (US$2,790,893), bearing interest at 30-day LIBOR plus 2.00%, repayable in blended monthly installments of CA$54,114 (US$46,530) up to December 2011. The loan is secured by production equipment and a corporate guarantee from the Company. The interest on the loan is to be adjusted monthly to the floating rate.	**3,245,809**	–
Loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of $38,333 to March 2010, secured by production equipment	**1,955,000**	–
Loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of $18,333 to July 2010, secured by production equipment	**1,008,333**	–
Loan, bearing interest at the Royal Bank of Canada's 30-day banker acceptance rate plus 2.80%, repayable in blended monthly installments of $32,834 up to September 2005 and a final blended installment of $366,660 in October 2005, secured by production equipment	**–**	626,539
Loan, bearing interest at prime plus 0.50%, repayable in monthly principal installments of $8,333 up to December 2005	**–**	100,000
	9,738,481	5,535,378
Current portion of long-term debt	**2,420,281**	2,006,039
	$ 7,318,200	$ 3,529,339

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 5)

Years ended December 31, 2005 and 2004

6. Long-term debt (continued):

(a) In 2002, the Company received loans under the Quebec Immigrant Investor Program ("QIIP") in the amount of $1,750,000. In order to guarantee its obligations towards its creditors for the loans, the Company established a trust, making QIIP its beneficiary. The Company also transferred bank notes to the trust, purchased at a discount in the amount of $1,419,740 and maturing in five years on October 31, 2007 at an amount of $1,750,000. The act creating the trust stipulates that the guaranteed obligations will be settled from the proceeds of the maturity of the bank notes. In addition, the act creating the trust compels the trustee to endorse the notes upon maturity and to use the proceeds of this endorsement in order to settle any obligations created under the trust.

Interest on long-term debt amounted to $259,284 for the year ended December 31, 2005 (2004 - $365,578).

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2005 and thereafter are as follows:

2006	$ 2,420,281
2007	2,242,563
2008	1,821,049
2009	1,606,874
2010	1,019,662
Thereafter	628,052
	$ 9,738,481

7. Income taxes:

The provision for income taxes differs from the amount computed by applying the Canadian and United States federal, provincial and state rates to income before income taxes. The reasons for the difference and the related tax effects are as follows:

	2005	2004
Income before income taxes	**$ 5,319,937**	$ 3,507,178
Expected rate	**30.92%**	31.15%
Expected income taxes	**1,644,925**	1,092,486
Adjustments:		
Non-deductible items	**24,817**	16,200
Utilization of non-capital losses carried forward	**(287,800)**	(64,500)
Translation gain of a foreign subsidiary	**(29,246)**	–
Unrecognized benefit of Imaflex USA Inc.'s losses	**91,934**	–
Other	**(116,263)**	(73,676)
Future income tax adjustments due to rate enactments	**198,361**	–
Deduction for new investment in Québec	**–**	(49,900)
	$ 1,526,728	$ 920,610

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 6)

Years ended December 31, 2005 and 2004

7. **Income taxes (continued):**

	2005	2004
Represented by:		
Current	$ 1,360,053	$ 854,373
Future	166,675	66,237
Income tax expense	**$ 1,526,728**	$ 920,610

The detail of the future income taxes is as follows:

	2005	2004
Assets:		
Losses carried forward	**$ 91,934**	$ 120,000
Capital assets	**–**	149,000
Valuation allowance	**(91,934)**	(269,000)
	$ –	$ –
Liabilities:		
Capital assets	**$ 1,821,263**	$ 1,696,172
Share issue costs	**(161,381)**	–
Net future income tax liability	**$ 1,659,882**	$ 1,696,172

The Company's subsidiary, Imaflex USA, has non-capital losses available to carry forward to reduce future taxable income of approximately $239,000 that expire in 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 7)

Years ended December 31, 2005 and 2004

8. Share capital:

Share capital consists of:

Authorized:

Unlimited number of Class A shares, voting, participating, without par value; unlimited number of Class B shares, non-voting, participating, without par value, issuable at any time and in one or more series; and unlimited number of Class B Series 1 shares, convertible at the option of the holder to Class A shares subject to the restriction that the percentage of Class A shares in the hands of public security holders following such conversion must not be less than 20% of the total issued and outstanding Class A shares

A summary of shares outstanding is presented below:

	2005		2004	
	Shares	**Book value**	Shares	Book value
Issued and outstanding:				
Class A shares, beginning of year	**31,055,002**	**$ 1,946,615**	31,035,002	$ 1,940,615
Exercise of options	**195,000**	**62,550**	20,000	6,000
Issuance of shares by private placement	**6,350,000**	**6,032,500**	–	–
Share issue costs, net of future income taxes of $202,965	**–**	**(390,000)**	–	–
Issuance of 444,500 compensation options	**–**	**(285,000)**	–	–
	37,600,002	**$ 7,366,665**	31,055,002	$ 1,946,615

Basic earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the year of 34,362,502 (2004 - 31,046,669).

Diluted earnings per share have been calculated on the basis of the weighted average number of shares outstanding during the year of 34,437,258 (2004 - 31,112,430).

During the year, the Company issued 6,350,000 Class A shares pursuant to an underwritten private placement with Acumen Capital Finance Partners Limited ("Acumen") for a cash consideration of $6,032,500. Issue expenses of $592,965 less future income taxes of $202,965 have been applied against the proceeds.

Furthermore, 444,500 compensation options were issued to Acumen as part of the private placement. The compensation options have an exercise price of $0.95 per share for the first 12 months subsequent to the issuance and a price of $1.05 for an additional period of 6 months. No compensation options were exercised in 2005.

The cost of $285,000 relating to the compensation options was calculated using the Black-Scholes option pricing model with the following assumptions; expected option life of 18 months, a risk-free interest rate of 2.25% and an expected volatility of 77%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 8)

Years ended December 31, 2005 and 2004

8. Share capital (continued):

Stock Option Plan:

Pursuant to the Stock Option Plan (the "Plan") of the Company, ten percent (10%) of the Class A shares issued and outstanding from time to time are reserved for options. The Plan provides that the term of the options shall be fixed by the directors, and only directors, officers and employees of the Company or its subsidiaries are eligible to receive options. Options are granted at an exercise price of not less than the fair value of the Company's shares on the date the options are granted. Options may be exercisable for a period no longer than five (5) years and the exercise price must be paid in full upon exercise of the option. As at December 31, 2005, there are no outstanding options under the plan.

A summary of the options outstanding is presented below:

	2005		2004	
	Options (000's)	**Weighted average exercise price**	Options (000's)	Weighted average exercise price
Stock option plan:				
Outstanding, beginning of year	**195**	**$ 0.32**	215	$ 0.32
Granted	**–**	**–**	–	–
Exercised	**(195)**	**0.32**	(20)	0.30
Outstanding, end of year	**–**	**$ –**	195	$ 0.32
Compensation option:				
Granted and outstanding, end of year	**444.5**	**$ 0.95**	–	$ –
Exercisable, end of year	**444.5**	**$ 0.95**	–	$ –

During the year, 195,000 options were exercised for cash proceeds of $62,550.

The following table summarizes information about the options outstanding as of December 31, 2005:

Options outstanding			Options exercisable		
Exercise price	Number outstanding (000's)	Weighted average remaining contractual life (years)	Exercise price	Options (000's)	Weighted average exercise price
$0.95	444.5	1.1	$ 0.95	444.5	$ 0.95

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 9)

Years ended December 31, 2005 and 2004

9. Related party transactions:

During the year, in the normal course of business, the Company had routine transactions with related parties owned by shareholders of the Company. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Details of these transactions are as follows:

	2005	2004
Management fees	**$ 132,805**	$ 133,405
Commissions	**–**	32,000
Consulting	**–**	40,000
Rent	**548,736**	470,244

10. Commitments:

The Company's future minimum lease payments under operating leases for facilities leased from a related party are approximately as follows:

2006	$ 639,300
2007	651,300
2008	651,300
2009	650,300
2010	664,100
Thereafter	3,739,800
	$ 6,996,100

In addition, the Company entered into commitments to purchase production equipment for approximately $5,397,870, of which $1,472,052 was paid as a deposit at year-end.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 10)

Years ended December 31, 2005 and 2004

11. Contingency:

On March 29, 2001, the Company acquired 100% of the outstanding shares of Canslit for an initial consideration of $162,501 payable by the issuance of 750,000 Class A shares of the Company, of which 250,000 Class A shares were placed in escrow and were to be released from escrow based on representations and warranties being satisfied by the vendor.

The share purchase agreement included a contingent consideration clause based on the future results of Canslit for the years ending December 31, 2002, 2003 and 2004, which could have resulted in the issuance of up to an additional 750,000 Class A shares of the Company. As a consequence of Canslit not having attained the minimum contractual level of results for the years ended December 31, 2002, 2003 and 2004, no additional Class A shares of the Company will be issued.

In 2003, the Company filed two statements of claim against a former shareholder of Canslit (the "Defendant"). In the first action, the Company asserts that a breach of undertakings by the Defendant under a confidentiality and non-competition agreement has caused the Company serious prejudice for which it is seeking reparation.

Under the share purchase agreement, the Defendant, as vendor, represented and warranted to the Company, as purchaser, the operating condition of the equipment used in carrying on the business of Canslit. The Company asserts in the second statement of claim that the Defendant's representations and warranties under the Canslit share purchase agreement were not accurate and is seeking damages in that regard.

The Defendant subsequently filed a counterclaim seeking the release and delivery of all shares held in escrow and the re-issuance of the shares that the Company has already cancelled following Canslit's failure to meet the minimum contractual level of results. The Company is vigorously contesting the counterclaim, which, it believes, is without merit. The Company is currently waiting for a trial date in these matters.

12. Statement of cash flows:

The detail of the net change in non-cash working capital balances relating to operations is as follows:

	2005	2004
Accounts receivable	**$ (2,638,209)**	$ (1,583,359)
Inventories	**256,983**	(3,901,000)
Prepaid expenses	**(61,540)**	(10,092)
Accounts payable and accrued liabilities	**11,814**	1,229,352
Income taxes payable	**(16,256)**	409,034
	$ (2,447,208)	$ (3,856,065)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, (page 11)

Years ended December 31, 2005 and 2004

13. Financial instruments:

(a) Foreign currency risk management:

A portion of the Company's sales and expenses are denominated in US dollars. The Company does not use forward foreign exchange contracts to reduce foreign exchange exposure since the revenue stream in US dollars acts as a natural hedge to cover expenses denominated in US dollars. The Company's statement of income includes foreign exchange losses of $505,000 (2004 - gain of $35,000) realized as part of normal operations.

(b) Credit risk:

The Company's extension of credit is based on an evaluation of each customer's financial condition and the Company's ability to obtain credit insurance coverage for that customer. Credit losses are provided for in the financial statements.

(c) Fair value disclosure:

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company has determined that the carrying value of its short-term financial assets and liabilities approximates their fair values as at the balance sheet date because of the short-term maturity of those instruments. The carrying value of long-term debt approximates its fair value at the balance sheet date.

(d) Interest rate risk:

The Company's principal exposure to interest rate fluctuations is with respect to its short-term and long-term financing, which bear interest at floating rates.

14. Segmented information:

The Company operates in one reportable operating segment being the design, manufacture and sale of packaging materials. The Company operates primarily in Canada.

Sales to the United States totaled $22,588,542 for the year ended December 31, 2005 (2004 - $10,381,899).

Capital assets in the United States totaled $4,986,894 as at December 31, 2005 (2004 - nil).

15. Comparative figures:

Certain figures previously reported on for the year ended December 31, 2004 have been reclassified to conform to the current year's presentation.

CORPORATE INFORMATION

OFFICERS

Joseph Abbandonato,
President and Chief Executive Officer

Tony Abbandonato,
Production Director and Secretary

Gerry Phelps,
Vice-President – Operations

Pierre Senecal,
Vice-President – Sales

Roberto Longo, CA
Corporate Controller

BOARD OF DIRECTORS

The Board of Directors establishes the objectives and the long-term direction of the Company. The Board meets regularly throughout the year to review progress towards achievement of the Company's goals and to recommend policies and procedures directed at optimizing performance.

Joseph Abbandonato,
Chairman and President

Tony Abbandonato,
Secretary

Camillo Lisio,
Vice-President and Chief Operating Officer – Dorel Industries Inc.

Pierre Myrand,
President and CEO, SiXtron Advanced Materials Inc.

Philip Nolan,
Partner, Lavery, de Billy

Gerry Phelps,
Vice-President

John Wight, FCA,
Corporate Director

SHAREHOLDER INFORMATION

Audit and Compensation Committee: John Wight, FCA, Chairman; Pierre Myrand; Philip Nolan

Auditors: KPMG - LLP, Montréal, Québec

Legal Counsel: Lavery, de Billy, Montréal, Québec

Listing: Imaflex Inc. shares are listed as IFX.A on the TSX Venture Exchange

Transfer Agent:	Computershare Investor Services
Head office:	Imaflex Inc. 5710 Notre Dame West Montréal, Québec, Canada H4C 1V2
Telephone:	(514) 935 – 5710
Fax:	(514) 935 – 0264
E-mail:	info@imaflex.com
Website:	www.imaflex.com

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on Tuesday, May 23, 2006 at 5:00 p.m. at Fairmont - The Queen Elizabeth, Salon Chaudiere, 900 René Lévesque West, Montréal, Québec, H3B 4A5.